Treasury Inspector General for Tax Administration

THE MODERNIZATION AND INFORMATION TECHNOLOGY SERVICES ORGANIZATION CAN IMPROVE ITS BUDGET FORMULATION, EXECUTION, AND REVIEW PROCESSES

Issued on May 9, 2007

Highlights

Highlights of Report Number: 2007-20-064 to the Internal Revenue Service Chief Information Officer.

IMPACT ON TAXPAYERS

Improvements are needed in the Modernization and Information Technology Services (MITS) organization's budget formulation, execution, and review processes. These improvements will help provide more effective use of taxpayer funds in the MITS organization operations.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2006 audit plan for reviews of the Internal Revenue Service's (IRS) modernization efforts. The overall objective of this review was to assess the adequacy of the processes and controls for developing, monitoring, and accounting for the MITS organization budget.

The MITS organization uses guidance provided by the Office of Management and Budget, the Chief Financial Officer, and the Financial Management Services organization to develop and manage its budget. The Financial Management Services organization has developed its own specific budget execution guidance, including the MITS Financial Operating Guidelines, to supplement the Office of Management and Budget and Chief Financial Officer guidance.

WHAT TIGTA FOUND

The Modernization Program develops its budget based on the needs of the information technology projects within the Program. However, the remainder of the MITS organization budget is based on its prior year's funding plus adjustments for inflation, salary increases, and funds availability.

If a budget is not based on planned resources needed to achieve organizational goals, budget shortfalls and overages can occur. When this happens, funds must be shifted between programs and fund centers to allow the

organization to achieve its goals. In Fiscal Year 2006, the MITS organization had to move close to $624 million (almost 39 percent) of its $1.6 billion budget between programs and fund centers to continue supporting the IRS' computing needs.

The Financial Management Services organization Budget Planning Office is responsible for soliciting, receiving, reviewing, and processing budget estimates from the MITS organization offices. However, there are no formalized Financial Management Services organization procedures for the budget formulation process. Additionally, the Financial Management Services organization Budget Execution Office procedures for transferring funds were not always followed, and guidance for performing spending reviews is not complete.

WHAT TIGTA RECOMMENDED

To address the MITS organization budget development, the Chief Information Officer should implement a process to develop the entire MITS organization budget in line with the Information Technology Modernization Vision and Strategy's rolling 5-year prioritized plan. To address the processes for budget formulation, execution, and monitoring, the Chief Information Officer should complete and implement the draft procedures for budget formulation and spending reviews.

In their response to the report, IRS officials agreed with the recommendations. Planned corrective actions include developing a MITS organization 5-year strategic budget process to address the information technology budget needs not covered by the Information Technology Modernization Vision and Strategy. Additionally, the MITS organization plans to develop an implementation schedule to ensure Budget Cycle and spending review documents are approved and distributed timely. These plans include developing standard operating procedures for the Financial Management Services organization staff and detailed standard operating procedures for Fund Center Changes.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2007reports/200720064fr.pdf.

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